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A: My name is Maureen E. Gurghigian and I am a Senior Vice President at First Southwest Company's Lincoln, Rhode Island office located at 652 George Washington Highway.

A: I provide financial advisory services to issuers of municipal debt, primarily in the State of Rhode Island. In addition, I have supervisory responsibility for First Southwest's involvement with borrowings by the State of Rhode Island, numerous public agencies and 30 Rhode Island municipalities. The Rhode Island office assists clients with the origination of more than \$800 million in public financing issues each year. We serve as financial advisor to the Pawtucket Water Supply Board and the City of Pawtucket. The firm serves more than 1,600 municipalities, including more than 400 in New England. Last year First Southwest Company was involved in the issuance of more than \$12 billion in municipal obligations.

A: I hold a masters degree in business administration from the University of Rhode Island. I am a registered Municipal Principal with the Municipal Securities Rulemaking Board. Prior to joining First Southwest on June 8, 2001, I worked for Fleet Bank and/or Fleet Securities for 16 years, all in municipal finance. From 1993 through 2000, I served as Manager of the New England Investment Banking Group of Fleet Securities, Inc. Before joining Fleet, I spent 8 years in Rhode Island State Government, including four years as Director of the Governor's Policy Office under then Governor J. Joseph Garrahy.

A: Yes, I have provided testimony before the Public Utilities Commission and the Division of Public Utilities on behalf of the Pawtucket Water Supply Board and other municipal utilities, most recently in connection with Dockets involving the Kent County Water Authority, the Narragansett Bay Commission.

1 **Q: Please describe your role in this proceeding.**

2 A: I have consulted with the Pawtucket Water Supply Board ("PWSB") and its financing team
3 with respect to the financing of the new Water Treatment Plant and distribution lines and
4 the refinancing of the debt issued by the Pawtucket Public Buildings Authority ("PBA")
5 and the City of Pawtucket ("City"). I have been asked to provide an update on the plan of
6 finance and its impact upon proposed rates.

7
8 **Q: What are the current borrowing plans of the Pawtucket Water Supply Board and how**
9 **have they changed since the last filing?**

10 A: It was the intent of the PWSB to implement its plan of finance as detailed in the last rate
11 filing on a consolidated basis, first to defease the outstanding debt of the City of Pawtucket
12 and the PBA and second, to provide funds for construction of the new treatment plant and
13 the PWSB Capital Improvements Plan ("CIP"). As noted in the testimony of Pamela
14 Marchand, the PWSB has experienced a delay in the selection of a vendor for the treatment
15 plant DBO which has resulted in a delay in that portion of the plan of finance. Following is
16 a review of the financial structure and a summary of the changes required by these
17 developments.

18
19 *Review of Financial Structure*

20 The financing structure as envisioned involves the use of subsidized loans and market-rate
21 revenue bonds from the Rhode Island Clean Water Finance Agency ("RICWFA") secured
22 solely by water rates and charges. In accordance to the Safe Drinking Water Act
23 Amendments of 1996, Rhode Island has created a Drinking Water State Revolving Fund
24 ("DWSRF") administered by the RICWFA to provide financial assistance to water
25 suppliers. This fund uses federal capitalization grants and state matching funds to provide
26 subsidized (25% below market-rate) loans to water suppliers for qualifying projects listed
27 on the Project Priority List maintained by the Department of Health. Under the proposed
28 plan of finance, the DWSRF will provide a significant portion of the capital funding for the
29 PWSB's capital program.

30
31 The plan of finance requires the development of a new credit structure that does not solely
32 rest on the City of Pawtucket but on revenues from all of the water system's customers who
33 benefit from the capital program. The contemplated credit structure does not utilize a
34 general obligation support of the City of Pawtucket.

1
2 In addition to subsidized loans and market rate revenue bonds, IFR funding will be used for
3 a portion of the capital program on a pay-as-you-go basis.
4

5 *Summary of Required Changes to Plan of Finance*

6 It is now the intent of the PWSB to proceed with the defeasance of its current debt structure
7 which is detailed below. The requirements of the CIP are such that we recommend
8 decoupling the elements of the plan of finance to enable the PWSB to obtain funds for
9 cleaning and lining prior to borrowing for the treatment plant . The PWSB's plans to seek
10 financing as soon as possible from the RICWFA to defease the PBA debt currently
11 outstanding [including the \$10 million bond anticipation notes] and the City General
12 Obligation Debt which is the responsibilty of the PWSB. At the same time, the PWSB will
13 seek subsidized loans from the RICWFA for its "new money" capital projects, namely the
14 cleaning and lining so as not to miss the 2003 construction season. The PWSB has no
15 additional authority to borrow either through the PBA or the City for its planned capital
16 projects. It must now turn to the RICWFA for DWSRF loans. Under the PWSB's current
17 debt structure, it will be required first to defease or payoff the PBA debt with the proceeds
18 of new loans in order to make the required revenue pledge to the RICWFA.
19

20 **Q: What is the PWSB's current debt structure?**

21 **A: The revenues of the PWSB are currently used to repay lease revenue bonds issued by**
22 **the PBA and general obligation bonds issued by the City.** Debt service on the PBA
23 bonds is paid by the PWSB under a sublease agreement with the City. The City and the
24 PBA have entered into a lease under which payments made by the PWSB under the
25 sublease will be paid by the City to the PBA for benefit of the bondholders. The PWSB
26 is also responsible for the repayment of approximately \$2.4 million of outstanding
27 general obligation bonds issued by the City of Pawtucket before the creation of the Public
28 Buildings Authority. These bonds were issued for the purpose of capital treatment,
29 transmission, distribution and storage facilities of the water system.
30

31 **Q: Why is defeasance of the PPBA Bonds necessary?**

32 **A:** The security provisions in place for the PPBA Bonds would put any additional revenue
33 bonds in a subordinate position to the outstanding PPBA Bonds, since the system and all its
34 assets are currently pledged to the PPBA Bonds. Such a structure would result in a lower-

1 rated and much higher interest cost for the major capital investment contemplated by the
2 PWSB. Second, the capacity of the PPBA is limited to approximately \$60 million or 50%
3 of the City's Budget in total outstanding debt by statute. The PBA statute also restricts the
4 size of any single PPBA issue to no more than 15% of the City's Budget in any single year
5 – or an annual cap of approximately \$20 million. Indeed, the PWSB's entire capital needs
6 over the next 10 years including the water plant and distribution system overhaul could
7 exceed the PPBA capacity by \$75 million to \$100 million.

8
9 **Q: What are the expected impacts upon ratepayers the changes in the plan of finance?**

10 A: In the short run, we expect no major changes directly related to the proposed debt
11 structure. That is the bond payments will be structured initially to match the current
12 bond payments. However, to the extent additional series of bonds and/or loans are
13 required as a result of the modified plan of finance, the PWSB will experience
14 additional costs of issuance. In addition, the delay in the treatment plant financing
15 would extend the overall debt schedule into a later fiscal year. It should also be
16 noted that it will not be possible to fix the interest rates on the future debt until the
17 PWSB can enter into a loan agreement with the RICWFA with a definite spending
18 plan. At this time, that will only be possible for the two series of defeasance or
19 refunding bonds and the small new money component contemplated for the 2003
20 construction season.

21
22 **Q: What are the advantages of the proposed approach to the plan of finance?**

23 A: The RICWFA DWSRF offers the lowest cost of borrowing (25% below market rates) to the
24 PWSB. This reduction in interest cost results in significant savings for the PWSB
25 ratepayers and the administrative experience of the CWFA will support efficient program
26 management.

27
28 **Q: What are the savings expected from the use of the SRF loans?**

29 A: The SRF subsidized interest rate is 25% below market rate. The estimated savings on
30 interest over the life of a typical \$10 million loan is \$1.5 million. That differential would
31 result in savings of \$12 million over a 24 to 26 year period for the expected \$80 million in
32 subsidized loans planned for the next four borrowing cycles.

Q: What is projected schedule of debt and debt service over the next 10 years?

A: The plan of finance now contemplates the refunding or defeasance issues with a \$5 million new money component in 2003, followed by the treatment plant financing as soon as a vendor is in place. The issues will be structured to match the existing debt service in fiscal 2003. It is expected that additional loan agreements in 2004, 2006 and 2007 will be put into place to fund the next \$30 million portion of the distribution system program to be paid from borrowed funds.

The following table provides the anticipated debt service schedule. [A more detailed schedule, including notes and assumptions is provided in MG-1.]

Fiscal Year	Taxable Refunding Bonds	Tax-exempt Refunding Bonds & 2003 New Money	Tax-exempt DWSRF Loans	RICWFA Expenses	New Net Annual Debt Service
2004	\$899,808	\$1,321,237	-0-	\$100,000	\$2,321,045
2005	785,908	1,799,765	\$ 540,297	100,000	3,266,364
2006	788,783	2,383,910	1,572,934	100,000	4,715,551
2007	786,083	2,345,713	5,186,327	100,000	8,288,046
2008	782,933	2,351,563	5,903,091	100,000	9,007,510
2009	784,333	2,351,933	5,900,835	100,000	9,007,014
2010	785,295	2,345,803	5,903,216	100,000	9,004,238
2011	735,545	2,349,373	5,900,029	100,000	8,954,870
2012	731,970	2,346,800	5,901,170	100,000	8,949,864

1

2 **Q: What are the issuance costs that are anticipated for the plan of finance?**

3 A: RICWFA loan policies and procedures and federal guidelines permit the utilization of loan
4 proceeds to fund these transaction expenses. The issuance costs will include origination
5 fees for RICWFA, Bond Counsel, Agency Counsel and Financial Advisor. The PWSB's
6 costs include Borrower Bond Counsel and advisory fees. Other project costs include
7 underwriter's discount, document printing and trustee fees. The overall cost of issuance
8 [exclusive of bond insurance] is estimated at 2.2% of total loan amount.

9

10 **Q: Why does the plan of finance include a mix of debt financing and IFR?**

11 A: The PWSB plan of finance involves the use of IFR funding for approximately 50% of the
12 distribution system program from 2002 to 2010. The PWSB developed this strategy in
13 order to reduce its reliance on long-term debt for projects that will have immediate benefits
14 and to effectively develop the mechanisms to demonstrate that it has sufficient rate
15 revenues to make its annual debt service obligations. The plan of finance contemplates that
16 during each fiscal year, once the PWSB has been certified to be in compliance with its
17 coverage requirements, the IFR funds will be "freed" for capital projects.

18

19 The DWSRF program has established that net revenues (gross revenue less operating
20 expenses) must be equal or exceed 125% of annual debt service. The PWSB expects the
21 RICWFA and the bond rating agencies insurers will require the PWSB to maintain
22 coverage at that level or higher.

23

24 Before the PWSB begins to make debt service payments on the DWSRF loans, all rate
25 revenue approved for capital will be directed to reserves that may be required under the
26 loan agreements and to the IFR program.

27

28 **Q: Does this complete your testimony?**

29 A: Yes, it does
30

Pawtucket Water Supply Board
Debt Service Summary

Schedule MG-1

Fiscal	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Year	Taxable	Tax-Exempt	10/1/2003	4/1/2004	4/1/2006	4/1/2007	Projected	Projected	Total
	<u>Refunding</u>	<u>Refund/\$15 Million</u>	<u>\$50 Million</u>	<u>\$10 Million</u>	<u>\$10 Million</u>	<u>\$10 Million</u>	<u>Debt Service</u>	<u>RICWFA Fees</u>	<u>Loan Payments</u>
6/30/2004	\$ 899,808	\$ 1,321,237	\$ -	\$ -	\$ -	\$ -	\$ 2,221,045	\$ 100,000	\$ 2,321,045
6/30/2005	785,908	1,669,689	-	710,768	-	-	3,166,364	100,000	3,266,364
6/30/2006	788,783	2,253,834	860,779	712,155	-	-	4,615,551	100,000	4,715,551
6/30/2007	786,083	2,215,637	3,762,635	712,924	710,768	-	8,188,046	100,000	8,288,046
6/30/2008	782,933	2,221,487	3,767,095	713,074	712,155	710,768	8,907,510	100,000	9,007,510
6/30/2009	784,333	2,221,847	3,763,151	712,605	712,924	712,155	8,907,014	100,000	9,007,014
6/30/2010	785,295	2,215,727	3,765,701	711,518	713,074	712,924	8,904,238	100,000	9,004,238
6/30/2011	735,545	2,219,297	3,764,538	709,811	712,605	713,074	8,854,870	100,000	8,954,870
6/30/2012	731,970	2,216,724	3,764,560	712,486	711,518	712,605	8,849,864	100,000	8,949,864
6/30/2013	733,395	2,214,314	3,765,560	714,336	709,811	711,518	8,848,935	100,000	8,948,935
6/30/2014	734,495	2,220,834	3,767,332	710,361	712,486	709,811	8,855,320	100,000	8,955,320
6/30/2015	735,270	2,215,334	3,764,773	710,768	714,336	712,486	8,852,967	100,000	8,952,967
6/30/2016	735,720	1,224,559	3,762,779	710,349	710,361	714,336	7,858,105	100,000	7,958,105
6/30/2017	735,845	1,220,399	3,766,042	714,105	710,768	710,361	7,857,520	100,000	7,957,520
6/30/2018	735,645	1,213,359	3,764,354	711,830	710,349	710,768	7,846,305	100,000	7,946,305
6/30/2019	735,120	1,178,359	3,762,613	713,730	714,105	710,349	7,814,277	100,000	7,914,277
6/30/2020	734,270	1,176,594	3,765,510	714,599	711,830	714,105	7,816,909	100,000	7,916,909
6/30/2021	733,095	1,176,214	3,762,838	714,436	713,730	711,830	7,812,144	100,000	7,912,144
6/30/2022	731,595	1,141,854	3,764,392	713,243	714,599	713,730	7,779,412	100,000	7,879,412
6/30/2023	734,770	(2,111,302)	3,764,860	711,018	714,436	714,599	4,528,381	100,000	4,628,381
6/30/2024	1,227,295	-	(164,745)	(33,570)	713,243	714,436	2,456,659	100,000	2,556,659
6/30/2025	1,231,170	-	-	-	711,018	713,243	2,655,430	100,000	2,755,430
6/30/2026	1,231,295	-	-	-	(33,570)	711,018	1,908,743	100,000	2,008,743
6/30/2027	1,227,670	-	-	-	-	(33,570)	1,194,100	100,000	1,294,100
6/30/2028	1,230,295	-	-	-	-	-	1,230,295	100,000	1,330,295
6/30/2029	1,228,420	-	-	-	-	-	1,228,420	100,000	1,328,420
6/30/2030	1,227,045	-	-	-	-	-	1,227,045	100,000	1,327,045
6/30/2031	1,230,795	-	-	-	-	-	1,230,795	100,000	1,330,795
6/30/2032	1,228,920	-	-	-	-	-	1,228,920	100,000	1,328,920
6/30/2033	174,420	-	-	-	-	-	174,420	100,000	274,420
Total	\$ 26,397,200	\$ 31,425,995	\$ 64,694,769	\$ 13,500,547	\$ 13,500,547	\$ 13,500,547	\$ 163,019,604		\$ 166,019,604

NOTES

- [1] Taxable Refunding of PBA series 1996 bonds and certain City General Obligation Bonds
- [2] Tax-Exempt Refunding of PBA series 1995 bonds and certain City General Obligation Bonds; bonding of \$10 million PBA Bond Anticipation Notes and \$5 million New Money
- [3] Initial DWSRF borrowing for Treatment Plant, Capitalized Interest and Costs of Issuance
- [4] - [6] Series of \$10 million DWSRF borrowings for Distribution System and other PWSB CIP projects
- [7] Projected New Debt Service
- [8] Projected RICWFA Annual Fees, subject to negotiation with the RICWFA
- [9] Projected total loan payments (Debt Service plus Annual Fees)

ASSUMPTIONS: Interest Rates for [1] & [2] estimated as of the market of January 8, 2003 (7.4% Taxable, 4.67% Tax Exempt). Interest Rates for [3] - [6] estimated at a subsidized rate of 4.125%